

Grundy County Memorial Hospital
Grundy Center, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2010 and 2009**

Together with Independent Auditor's Report

Grundy County Memorial Hospital

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Grundy County Memorial Hospital

Officials
June 30, 2010

<u>Board of Commissioners</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Dr. Jane Hasek	Chair	Reinbeck, IA	July 2011
Ron Saak	Vice-Chair	Grundy Center, IA	July 2012
Barbara Smith	Secretary	Grundy Center, IA	July 2013
Brenda Davis	Treasurer	Reinbeck, IA	July 2013
Jerry Bakker	Member	Grundy Center, IA	July 2012
Jane Dodd	Member	Reinbeck, IA	July 2011
Janet Eberline	Member	Grundy Center, IA	July 2013
Evie Haupt	Member	Wellsburg, IA	July 2011
T.J. Johnsrud	Member	Conrad, IA	July 2011
Dan Robertson	Member	Reinbeck, IA	July 2013
Marty Rouse	Member	Grundy Center, IA	July 2012

<u>Hospital Officials</u>	<u>Title</u>
Pam Delagardelle	Chief Executive Officer
Lisa A. Zinkula	Chief Financial Officer

Independent Auditor's Report

To the Board of Commissioners of
Grundy County Memorial Hospital
Grundy Center, Iowa:

We have audited the accompanying balance sheets of Grundy County Memorial Hospital (Hospital), as of and for the years ended June 30, 2010 and 2009 and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grundy County Memorial Hospital as of June 30, 2010 and 2009, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2010 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Information on page 3 through 12 and page 28 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information included in Exhibits 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 17, 2010.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Our discussion and analysis of Grundy County Memorial Hospital's (Hospital's) financial performance provides an overview of the Hospital and its financial activities for the fiscal years ended June 30, 2010, 2009, and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 13.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the Hospital and its basic financial statements while providing an analytical overview of the Hospital's financial activities.
- The Hospital's financial statements consist of three statements - Balance Sheets; Statements of Revenue, Expenses, and Changes in Net Assets; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

General Information

The Hospital

The Hospital is a 25-bed critical access hospital located in Grundy Center, Iowa. The Hospital also has a 55-bed long-term care unit. Grundy County Memorial Hospital is the only hospital in Grundy County and serves a population base of over 12,000 residents. The Hospital has an operating agreement with Allen Health System of Waterloo, Iowa and is an affiliate of the Iowa Health System.

History

The Hospital was a private hospital operated in a home at 1209 6th Street in Grundy Center from about 1900 to 1905, under the direction of Drs. McAlvin, Thielen and McDowell. After discontinuance as a hospital, the house moved to 708 7th Street for a residence and was razed in 1965.

From 1921 to 1927, Dr. Locke H. Carpenter supplied hospital beds in connection with his office in the Carpenter Building, 617 G Avenue. Dr. Henry L. Mol established hospital facilities in connection with his office over the Corner Drug Store from 1929 to 1935.

Through the efforts of Dr. Mol and community leaders, the present Grundy County Memorial Hospital opened July 1, 1952, at its current location at 201 East J Avenue in Grundy Center as a 38-bed full service facility.

By 1967, the technical facilities were fast becoming obsolete. Moreover, the long term care of elderly people had become a need in the community. Expansion and adjustment of the original space was necessary. A bond issue for \$750,000 to match identical federal funds went before voters of the county. The vote passed, and the design, funding, construction, furnishing, and moving of the technical and administrative spread over nearly two and a half years. When finished, the 89-bed facility contained the most modern supportive amenities. Fifty-five patients could be cared for in the long-term care unit, a number that remains the same today. An open house and formal dedication in 1971 introduced the renovated hospital to the county.

Thirty-five years ago the newly constructed hospital stood alone on the east edge of town. Today, a neighborhood and businesses completely surround the healthcare facility.

Financial and Operations History

From 1983-2000, the Hospital continued to provide care despite struggling with the harsh economics that became part of rural healthcare. In 1993, the County Board of Supervisors believed maintaining a hospital in the county was critical to the medical and economic health of the area. They provided a subsidy and approved a bond referendum to pay the Hospital's debt. The county has continued to subsidize the Hospital since that time.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

A combination of factors helped heal the Hospital's finances. In 2000, Grundy County Memorial Hospital affiliated with Allen Hospital in Waterloo and reduced costs through resource sharing and joint purchasing. The Grundy County Memorial Hospital Board of Commissioners exercises joint authority for financial and long term planning, while Allen provides day-to-day operational management services. In addition, the Medicare Rural Hospital Flexibility Program allowed the Hospital to apply for status as a critical access hospital in order to receive full cost-based reimbursement for Medicare services. As a result, the Hospital began operating in the black, independent of the county subsidy.

With finances stabilized, the Hospital has added and enhanced services to meet the most common and critical local needs.

Computer System Implementation

In the fall of 2005, a new financial and clinical software package, CPSI, was implemented to improve patient safety, clinical care & documentation, and support Hospital operations. The conversion also included updating and adding hardware throughout the facility.

Modernization Project, Phase I

Prior to the completion of the modernization project in May 2006, the Hospital was built strictly as an inpatient facility and it had completely outgrown its ability to allocate space to outpatient services. The building was in desperate need of updating. The GCMH Board of Commissioners prioritized the most urgent needs of the Hospital and approved a \$6 million modernization plan to maximize efficiency, quality and convenience. The Hospital implemented its plan the spring of 2004 to modernize the physical plant and continue to improve its technology to best serve the future healthcare needs of residents of Grundy County and the surrounding area.

Phase I of the Modernization Project included the following plant improvements:

Mechanical Systems

\$1.8 million in heating, cooling, air handling and electrical systems were replaced and upgraded.

Specialty Clinics

Six new exam rooms including two specialty procedure rooms were added, allowing easy access to surgery, lab and radiology. The nurse's station is close to the reception and charting area to allow two specialty clinics to operate at the same time.

Emergency Room

A designated trauma cardiac room was updated. Two emergency bays and a waiting area have been added to the department.

Outpatient Therapies

This area included new square footage for the growing Physical Therapy, Occupational Therapy, Speech Therapy and Cardiac Rehab programs.

Ambulatory Surgery and Operating Rooms

Minor remodeling in the surgery area included new doors and ventilation systems to diminish infection control risks. A new Ambulatory Surgery Unit has improved patient safety, physician & customer satisfaction, and surgery volumes & efficiency with the addition of pre-admitting and recovery beds and recliners.

Radiology

This area features a new state of the art facility for the CT scanner, dexascan, mammography and sonography equipment. A new sleep studies program also resides in this new space. The layout allows for easy access to all rooms from a central radiology workroom.

Hospital Entry and Parking Area

A new entry offers easy access to specialty clinics, the admissions area and outpatient services. The new waiting area allows for the seating of 50 people and handicap accessible public restrooms. A canopied drop-off at the front door has improved access for patients, long term care residents, families and visitors. An earlier increase in outpatient services meant patients and visitors were forced to park in the street rather than in the Hospital lot. Over 20 new spaces of additional parking were added.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Healing Garden

Although not planned as part of the modernization project, a healing garden was created for long-term care residents, patients, families, visitors and Hospital Associates. A local high school student raised funds to construct cement walkways, a gazebo, a pergola, water fountains and plant over 1,000 trees, shrubs and perennials.

The Outpatient Therapy area was completed and occupied November 2004. The new addition, including Lab, Radiology, Specialty Clinic and Lobby, was completed June 2005. The Surgery, Recovery Room and Emergency Department remodel was completed April 2006. The parking lot re-pavement, expansion, and new signage were completed the fall of 2006. An Open House and Donor Appreciation Event for the public occurred May 11, 2006.

Modernization Project, Phase II

The GCMH Board of Commissioners approved moving forward with Phase II of the Modernization Project in October of 2008. The Hospital broke ground on the project late spring of 2009. The new addition included the following areas:

Inpatient Area

The new 18-bed Inpatient Area includes eight medical/surgery, two larger hospice, one bariatric, one pediatric and six orthopedic rooms. Each room has its own bathroom, shower and family area. There are small nursing work stations between patient rooms for a more decentralized approach to charting, supplies, and medications. Additionally, the new unit has a physical therapy rehabilitation room for orthopedic patients, patient and family activity room, physician dictation area, and a large waiting area. An outpatient services room is located next to the Inpatient Area and accommodates three patients.

Emergency Department

The new Emergency Department offers three private treatment bays and a larger trauma room with capabilities for the simultaneous treatment of two patients. The new space also includes a larger waiting area, enclosed and climate-controlled ambulance garage, decontamination room, on-call physician sleep room and a consultation room.

Surgery

Remodeling in the surgery area began in July, 2010 and includes additional space that was previously occupied by the Emergency Department. An enlarged Ambulatory Surgery Unit will provide improved customer satisfaction and patient privacy with 9 closed bays while accommodating increased surgery volumes.

The Hospital Board of Commissioners and the Grundy County Board of Supervisors worked together to optimize the Hospital's borrowing potential by having the County issue general obligation bonds and enter into a loan agreement for these bonds with GCMH.

The Emergency Department and Inpatient Area was completed and occupied June 2010. An Open House and Donor Appreciation Event for the public occurred June 9 and June 10, 2010.

A Partner for Grundy County

GCMH Associates

The Hospital is a vital part of Grundy County. With a staff of 203, it is one of the county's largest employers. The total annual payroll and benefits for the Hospital reached \$6.1 million for the year ending June 30, 2010.

The growth, expansion and modernization of Grundy County Memorial Hospital has lead to the creation of almost 100 jobs since 2003.

The Administrative Team and Hospital Board of Commissioners demonstrate their commitment to Hospital Associates by providing many opportunities for employee education as well as encouraging persons in lower skilled positions to train for higher skill level and professional positions within the organization.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Medical Staff

The Grundy County Memorial Hospital Medical Staff has grown from 22 physicians in 2003 to a total of 138 Providers (7 active and 131 Courtesy). The Medical Staff had 15 new providers apply for Medical Staff privileges during FY 2009-2010 and 17 relinquishments.

Economic Impact

According to Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over for the county each year. If the health sector increases or decreases in size, the medical health of the community, as well as the economic health of the community, are greatly affected. For the attraction of industrial firms, businesses, and retirees, it is crucial that the area have a quality health sector.

Community Partner

The Hospital also strives to be a good community partner. GCMH takes health education classes, health fairs and wellness opportunities out into its market area. GCMH collaborates with area schools to provide athletic trainer services for the youth. The Hospital also offers immunization clinics, occupational health services, education and drug-screenings throughout the county, thereby touching many lives.

The Hospital is committed to addressing anticipated future workforce issues in healthcare. GCMH is actively partnering with Hawkeye Community College, Northeast Iowa Area Health Education Center (AHEC) and area high schools to organize activities for kindergarten through high school students, offer Certified Nursing Assistant (CNA) classes, and collaborate on entry level college classes that foster interest in the pursuit of healthcare careers.

The Emergency Department Team has focused on providing continuing education for Emergency Medical Services (EMS) groups in the hospital's market area in 2010.

GCMH Administration and key staff are actively involved in the community-wide health needs assessment, planning and implementation strategies with public health, schools, businesses, community and county officials. The planning sessions focus on updating and resetting the vision for community health.

Vision for the Future

Strategic Initiatives

In 2006, the GCMH Leadership Team, Medical Staff, and Board of Commissioners engaged consultants to update the Hospital's mission, vision, and strategic initiatives. The process included interviewing over 50 leaders from the county about their vision for improving health in their communities. A strategic plan was developed for FY 2006 – 2009.

The mission of Grundy County Memorial Hospital, "to improve the health of the people in the communities we serve through healing, caring and teaching" remains current. The vision was updated during FY 2009 to address the focus for the Hospital, "best outcome, every patient, every time".

The Strategic Initiatives for GCMH for FY 2006 – 2010 were:

- Improve clinical quality, patient safety, and customer service
- Further enhance the Hospital's culture
- Stabilize, expand, and strengthen the relationship with the Medical Staff
- Expand existing services and develop new services
- Seek to reposition long-term care services with others in the region
- Build stronger relationships with service area communities
- Continue to update and upgrade the Hospital's physical facilities
- Strengthen GCMH Board, Medical Staff, and Administrative Leadership
- Continue to enhance financial performance

The GCMH Board of Commissioners and Leadership Team have engaged a strategic planning consultant to begin work on a new strategic plan. The timeline for completion of the new plan is fall 2010.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Major Strategic Accomplishments for FY 2009-2010

- **Press Ganey Summit Award for Patient Satisfaction in Outpatient Services**

Presented to a hospital that attains the highest levels of performance in patient satisfaction and sustains this extraordinary success for a period of three years.

- **2009 Iowa Gold Standard Performing Critical Access Hospital**

Identified in 2009 Gold Standard Institute Report on Critical Access Hospitals by LarsonAllen through a rigorous analysis of Medicare Cost Reports and other publically available information for 2006-2009. GCMH was recognized as a top performing hospital in Iowa; a benchmark for financial and operating performance. (Identified as one of thirty five top performing hospitals in the country in 2008).

- **2010 Quality First Award**

Recognized by Iowa Association of Homes and Services for the Aging for significant strides in quality improvement in the areas of falls prevention and medication errors.

- **Construction and opening of 18 bed Inpatient Area and Emergency Department.**

Financial Highlights

- The Hospital's cash and cash equivalents increased \$249,133 from 2009 to 2010 due to an increase in cash received from patients and third-party payors due to volume increases. From 2008 to 2009 there was an increase of \$632,102.
- The Hospital's increase in net assets was \$455,748, 6.7% from June 30, 2009 to June 30, 2010 and \$483,167, 7.6% from June 30, 2008 to June 30, 2009.
- Net patient and service revenue before provision for bad debt increased \$1,289,723, 10.4% from 2009 to 2010 and \$2,522,878, 25.5% from 2008 to 2009.
- Operating expenses increased \$1,499,090, 12.5% from the year ending June 30, 2009 to June 30, 2010 and \$2,157,029, 21.9% from the year ending June 30, 2008 to June 30, 2009.

Financial Statements

The Balance Sheets and Statements of Revenue, Expenses, and Changes in Net Assets

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statements of Cash Flows

The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in the cash balance during the reporting period.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Changes in the Hospital's Net Assets and Operating Results

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 13. The Hospital's net assets increased \$455,748, 6.7% from June 30, 2009 to June 30, 2010 and \$483,167, 7.6% from June 30, 2008 to June 30, 2009. (Refer to **Table 1**).

Table 1: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 5,013,251	3,600,074	3,047,863
Capital assets, net	17,877,376	7,855,716	6,447,086
Other noncurrent assets	3,008,809	2,238,303	2,835,843
Total assets	<u>25,899,436</u>	<u>13,694,093</u>	<u>12,330,792</u>
Liabilities:			
Long-term debt outstanding	16,133,742	4,413,146	4,572,661
Other current and noncurrent liabilities	2,496,652	2,467,653	1,428,004
Total liabilities	<u>18,630,394</u>	<u>6,880,799</u>	<u>6,000,665</u>
Net assets:			
Invested in capital assets, net of related debt	3,427,644	3,442,570	1,874,425
Restricted for debt service	109,150	430,289	430,418
Unrestricted	3,732,248	2,940,435	4,025,284
Total net assets	<u>\$ 7,269,042</u>	<u>6,813,294</u>	<u>6,330,127</u>

Year Ending June 30, 2009 to June 30, 2010:

The Hospital's total assets increased \$12,305,343. This increase is a result of an increase of \$10,021,660 in capital assets, net due to increased costs incurred associated with the modernization project, an estimated third-party payor settlements receivable of \$375,000, an increase in assets limited as to use or restricted of \$1,656,575 primarily related to funds available for the modernization project.

Year Ending June 30, 2008 to June 30, 2009:

The Hospital's total assets increased \$1,263,301. This increase is a result of an increase in cash and cash equivalents of \$614,102 and an increase in capital assets, net due to increased costs incurred associated with the modernization project while other noncurrent assets decrease is a result of a decrease in assets limited to use or restricted by the Board for capital improvements of \$591,977.

Operating Results

In 2010, the Hospital's net assets increased by \$455,748, 6.7% while in 2009 the increase was \$483,167, 7.6%. (Refer to **Table 2**). These increases include an excess of revenue over expenses before capital grants and contributions of \$285,412 for June 30, 2010, \$283,167 for June 30, 2009, and \$276,985 for June 30, 2008.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Table 2: Condensed Statements of Revenue, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenue:			
Net patient service revenue	\$ 13,724,416	12,434,693	9,911,815
Provision for bad debt	(298,600)	(283,350)	(194,696)
Other operating revenue	<u>157,187</u>	<u>147,329</u>	<u>162,609</u>
Total operating revenue	13,583,003	12,298,672	9,879,728
Operating Expenses:			
Salaries and benefits	7,919,268	7,153,243	5,736,474
Purchased services and other	4,154,126	3,926,638	2,845,204
Depreciation and amortization	1,329,217	731,330	1,066,388
Interest	<u>82,107</u>	<u>174,417</u>	<u>180,533</u>
Total operating expenses	13,484,718	11,985,628	9,828,599
Operating income	98,285	313,044	51,129
Nonoperating Revenue and Expenses:			
County subsidy	150,000	163,000	163,000
Investment income	41,372	73,070	168,544
Other nonoperating revenue and expenses, net	<u>(4,245)</u>	<u>(265,947)</u>	<u>(105,688)</u>
Total nonoperating revenue (expenses), net	187,127	(29,877)	225,856
Excess of revenue over expenses before capital grants and contributions	285,412	283,167	276,985
Capital grants and contributions	170,336	200,000	129,874
Increase in net assets	\$ <u>455,748</u>	<u>483,167</u>	<u>406,859</u>

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income - the difference between net patient service revenue and the expenses incurred to perform those services. For the year ending June 30, 2008, the Hospital reported operating income of \$51,129, for the year ending June 30, 2009, the Hospital reported operating income of \$313,044 and for the year ending June 30, 2010, the Hospital reported operating income of \$98,285.

Year Ending June 30, 2009 to June 30, 2010:

The primary components of the operating income of \$98,285 are:

- Inpatient and swing bed revenue increased \$57,731, 4.7% from June 30, 2009 to June 30, 2010 due to a decrease in patient days and a change in the mix of day which was offset by a room rate increase. Acute days decreased 37.1%, Skilled days increased 23.8%, and Hospitality days remained consistent between the years. The Acute and Skilled days were positively impacted by 32 total knee surgeries, 12 total hip surgeries and one total shoulder surgery.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

- Outpatient revenue increased \$1,735,099, 18.4% from 2009 to 2010. This increase is primarily due to:
 - Emergency Room visits increased from 2,204 visits to 2,403, an increase of 199 visits, 9.0%.
 - Lab procedures increased by 6,660, 9.2% from 2009 to 2010.
 - Operating room revenue increased \$136,892, 10.5% from 2009 to 2010.
 - Radiology revenue increased \$386,132, 16.8% from 2009 to 2010. This increase primarily relates to the increased CT, MRI, and C-Arm volume.
 - Therapy visits increased from 6,331 visits to 6,957, an increase of 626 visits, 9.9%.
 - Cardiac Rehab revenue increased \$86,690, 6.7% from 2009 to 2010.
 - Wound Clinic visits increased from 351 for 2009 to 388 for 2010, an increase of 10.5%.
- Long-Term Care revenue increased \$8,546. This increase reflects a decrease in days of 1,108, 5.9% which was offset by an increase in rates effective July 1, 2009.
- Increases in salary and benefit costs for the Hospital's Associates of \$866,025, 12.3%. FTEs increased from 120.54 for 2009 to 128.27 for 2010, an increase of 6.4%
- Purchased services and professional fees decreased \$22,901, 1.4% from 2009 to 2010. This decrease is a result of the decreased amount due to Allen Memorial Hospital of \$214,759 which was offset by an increase in expense for anesthesia and the use of agency staffing for Speech Therapy, Acute Care and Long-Term Care.
- Increases in supplies and other expenses of \$251,281, 13.0%. This increase is a result of the increase in outpatient volume and surgical procedures (32 total knee, 12 total hip replacements, 1 total shoulder, and 160 cataract surgeries).

Year Ending June 30, 2008 to June 30, 2009:

The primary components of the operating income of \$313,044 are:

- Inpatient and swing bed revenue increased \$382,083, 45.7% from June 30, 2008 to June 30, 2009 due to an increase in patient days and a change in the mix of days. Acute days increased 47.8%, Skilled days increased 29.6%, and Hospitality days decreased 77.5%. The Acute and Skilled days were positively impacted by 31 total knee surgeries and eight total hip surgeries.
- Outpatient revenue increased \$1,995,555, 26.8% from 2008 to 2009. This increase is primarily due to:
 - Emergency Room visits increased from 1,881 visits to 2,204, an increase of 323 visits, 17.2%.
 - Lab procedures increased by 3,758, 5.5% from 2008 to 2009.
 - Operating room revenue increased \$457,064, 54.3% from 2008 to 2009.
 - Radiology volume increased 857 visits, 18.2% from 2008 to 2009. This increase primarily relates to the increased CT, General X-Ray, and MRI volume.
 - Therapy visits increased from 5,653 visits to 6,331, an increase of 678 visits, 12.0%.
 - Cardiac Rehab volume increased from 1,539 visits to 1,821, an increase of 18.3%.
 - Wound Clinic visits increased from 268 for 2008 to 351 for 2009, an increase of 31.0%.
- Long-Term Care revenue increased \$129,059, 5.5%. This increase reflects an increase in days and an increase in rates effective July 1, 2008.
- Increases in salary and benefit costs for the Hospital's Associates of \$1,416,769, 24.7%.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

- Purchased services and professional fees increased \$554,770, 53.5% from 2008 to 2009. This increase is a result of increased expense for anesthesia, mobile MRI and Ultrasound and the use of agency staffing for Long-Term Care.
- Increases in supplies and other expenses of \$495,733, 34.3%. This increase is a result of the increase in outpatient volume and surgical procedures (31 total knee and 8 total hip replacements).

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of the county subsidy, investment income, noncapital grants and contributions, and the gain (loss) on disposal of capital assets.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2010, the Hospital had \$17,877,376 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2010, the Hospital purchased capital assets costing \$11,326,288. Capital asset additions for the year ending June 30, 2009 were \$2,226,593 and for the year ending June 30, 2008 were \$735,801.

Capital asset additions for 2010 relates to the construction costs associated with the Phase II Modernization Project, furniture/equipment (beds, recliners, chairs, pumps, lifts, shelving systems, etc), call light system and technology for the new areas, phone system and network equipment & lines associated, an access control system, general x-ray machine, CT injector, defibrators, surgical instruments including a colonoscope, hip fracture instruments & total joint instruments, cardiac monitoring equipment, exercise equipment for the new therapy services and cardiac rehab departments, computers, laptops, bar code scanners and servers for various areas of the hospital, along with office furniture.

Capital asset additions for 2009 relates the purchase of a 16 slice CT machine, a C-Arm, the remodel of the orthopedic suite along with the purchase of a surgical instruments, patient carts, glide scope, crash cart for Cardiac Rehab, patient room furniture, patient lifts, computers / laptops, server and network equipment, office furniture, and the modification of the sprinkler system on the second floor from a wet to a dry system.

Capital asset additions for 2008 relates the preparation of a master facility plan, the remodel of the hospice room, Long Term Care activities room and the orthopedic suite along with the purchase of a surgical table, lights and instruments, patient room furniture, computers / laptops, software and hardware for the Foundations Black baud application, office furniture, and the installation of the electric boiler and roof top chiller.

Debt

On March 1, 2004, the Hospital closed on the financing of \$4,025,000 in revenue bonds, "Series 2004 Bonds" pursuant to the authority contained in Chapter 347 of the Code of Iowa. Based on this code the Hospital's formal debt issuances, revenue bonds, cannot be issued without approval of the Grundy County Memorial Hospital Board of Commissioners by adoption of a resolution approving and authorizing the issuance of hospital revenue bonds. The Board of Commissioners approved this resolution and indicated that it was necessary and advisable for the Hospital to move forward with the revenue bond issuance for the purpose of (i) paying the cost of improvements to and renovation, construction, expansion, equipping and furnishing of an addition to and the existing space within the Hospital, (ii) funding a debt service reserve fund and (iii) paying the costs of issuance of the Bonds and costs related thereto. The payment of the Series 2004 Bonds is payable solely from the revenue of the Hospital. The bonds were paid in full on September 1, 2009.

On August 26, 2005, the Hospital entered in to a loan agreement with Grundy National Bank of Grundy Center, Iowa for \$650,000 to finance the costs of the acquisition and installation of clinical and financial equipment and software. The Board of Commissioners adopted a resolution approving and authorizing the loan agreement. The Series 2005 Subordinate Hospital Revenue Note is payable solely from the net revenue of the Hospital but is subordinate to the Hospital's obligations to make payment under the Series 2004 Bonds. This loan is payable monthly through September 2010.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

On December 27, 2005, the Hospital entered in to a loan agreement with the Grundy County Rural Electric Cooperative of Grundy Center, Iowa for \$290,000. The Grundy County Rural Electric Cooperative filed an application and supporting material with the Rural Utilities Services requesting the loan for promoting rural economic development. This loan is an interest free loan over ten years. The loan was used to finance the modernization and expansion project of the Hospital. The Series 2005, Second Subordinate Hospital Revenue Note is payable solely from the net revenue of the Hospital but is subordinate to the Hospital's obligations to make payment under the Series 2004 Bonds and the Series 2005 Subordinate Hospital Revenue Note. This loan is payable monthly through December 2015.

The Hospital has entered into a construction commitment for the Modernization Project, Phase II. To finance the project, on July 28, 2009, the Hospital entered into a loan agreement with Grundy County, Iowa through an issuance of General Obligation Urban Renewal Notes, Series 2009, in the amount of \$16,020,000. The proceeds of the notes were also used to refund the existing Series 2004 Hospital Revenue Bonds. The Hospital has pledged future net revenues of the Hospital to pay for this loan. Interest is paid semi-annually with a varying rate between 4.25% and 4.75%. The first interest payment was June 2010.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional financial information, contact the Hospital Administration Office, at 201 East J Avenue, Grundy Center, IA 50638.

Grundy County Memorial Hospital

Balance Sheets

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,969,893	1,720,760
Assets limited as to use or restricted	758,196	27,435
Receivables -		
Patient and resident, net of allowance for doubtful accounts		
of \$306,941 in 2010 and \$241,084 in 2009	1,355,817	1,335,354
Succeeding year County subsidy receivable	263,000	263,000
Other	28,165	16,405
Inventories	244,953	213,046
Prepaid expenses	18,227	24,074
Estimated third-party payor settlements	375,000	--
Total current assets	5,013,251	3,600,074
Assets limited as to use or restricted -		
less amounts required for current obligations	2,878,989	2,227,640
Capital assets, net	17,877,376	7,855,716
Other assets, net	129,820	10,663
Total assets	<u>\$ 25,899,436</u>	<u>13,694,093</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	646,523	176,860
Accounts payable -		
Trade	410,601	578,971
Capital related	649,046	235,152
Accrued expenses -		
Accrued salaries, wages and vacation payable	916,473	815,791
Payroll taxes	45,448	42,935
Interest	59,014	13,585
Deferred revenue	153,070	144,219
Deferred revenue for succeeding year County subsidy receivable	263,000	263,000
Estimated third-party payor settlements	--	374,000
Total current liabilities	3,143,175	2,644,513
Long-term debt, net of unamortized discount and current maturities	15,487,219	4,236,286
Total liabilities	18,630,394	6,880,799
Net assets:		
Invested in capital assets, net of related debt	3,427,644	3,442,570
Restricted for debt service	109,150	430,289
Unrestricted	3,732,248	2,940,435
Total net assets	7,269,042	6,813,294
Total liabilities and net assets	<u>\$ 25,899,436</u>	<u>13,694,093</u>

See notes to the financial statements

Grundy County Memorial Hospital

Statements of Revenue, Expenses and Changes in Net Assets **For the Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Net patient and resident service revenue before provision for bad debt	\$ 13,724,416	12,434,693
Provision for bad debts	<u>(298,600)</u>	<u>(283,350)</u>
Net patient and resident service revenue	13,425,816	12,151,343
Other operating revenue	<u>157,187</u>	<u>147,329</u>
Total operating revenue	<u>13,583,003</u>	<u>12,298,672</u>
OPERATING EXPENSES:		
Salaries	6,062,639	5,394,251
Employee benefits	1,856,629	1,658,992
Purchased services and professional fees	1,568,769	1,591,670
Utilities	274,338	293,883
Supplies and other expenses	2,190,721	1,939,440
Depreciation and amortization	1,329,217	831,330
Insurance	120,298	101,645
Interest	<u>82,107</u>	<u>174,417</u>
Total operating expenses	<u>13,484,718</u>	<u>11,985,628</u>
OPERATING INCOME	<u>98,285</u>	<u>313,044</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	41,372	73,070
County subsidy	150,000	163,000
Loss on disposal of capital assets	<u>(4,245)</u>	<u>(265,947)</u>
Nonoperating revenue (expenses), net	<u>187,127</u>	<u>(29,877)</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	285,412	283,167
CAPITAL GRANTS AND CONTRIBUTIONS	<u>170,336</u>	<u>200,000</u>
INCREASE IN NET ASSETS	455,748	483,167
NET ASSETS, Beginning of year	<u>6,813,294</u>	<u>6,330,127</u>
NET ASSETS, End of year	<u>\$ 7,269,042</u>	<u>6,813,294</u>

See notes to financial statements

Grundy County Memorial Hospital

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 12,665,204	12,665,420
Cash paid for employee salaries and benefits	(7,816,073)	(6,876,677)
Cash paid to suppliers and contractors	(4,348,556)	(3,845,512)
Other receipts and payments, net	<u>145,427</u>	<u>160,200</u>
Net cash provided by operating activities	<u>646,002</u>	<u>2,103,431</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County subsidy received	<u>150,000</u>	<u>163,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(10,348,938)	(2,154,088)
County subsidy received for capital acquisitions	100,000	100,000
Capital grants and contributions	70,336	100,000
Proceeds from issuance of long term debt, net of discount	15,928,654	--
Bond issuance costs	(134,199)	--
Payments on long term debt	(4,201,846)	(170,619)
Interest paid on debt	<u>(693,117)</u>	<u>(174,417)</u>
Net cash provided by (used in) capital and related financing activities	<u>720,890</u>	<u>(2,299,124)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Deposits to) withdrawals from assets limited as to use, net	(1,382,110)	591,725
Investment income, net	<u>114,351</u>	<u>73,070</u>
Net cash provided by (used in) investing activities	<u>(1,267,759)</u>	<u>664,795</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	249,133	632,102
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,720,760</u>	<u>1,088,658</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 1,969,893</u>	<u>1,720,760</u>

See notes to financial statements

Grundy County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 98,285	313,044
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,329,217	831,330
Interest expense included in operating expenses	82,107	174,417
(Increase) decrease in current assets -		
Receivables -		
Patients	(20,463)	40,385
Other	(11,760)	12,871
Inventories	(31,907)	(1,776)
Prepaid expenses	5,847	11,663
Estimated third-party payor settlements - Medicare and Medicaid	(375,000)	117,000
Increase (decrease) in current liabilities -		
Accounts payable	(168,370)	71,239
Accrued salaries, wages and vacation payable	100,682	171,291
Payroll taxes	2,513	5,275
Deferred revenue	8,851	(17,308)
Estimated third-party payor settlements - Medicare and Medicaid	<u>(374,000)</u>	<u>374,000</u>
Net cash provided by operating activities	<u>\$ 646,002</u>	<u>2,103,431</u>

See notes to financial statements

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

(1) Organization and Summary of Significant Accounting Policies

The Hospital is a 25-bed public hospital with an attached 55-bed nursing home located in Grundy Center, Iowa, organized under Chapter 37 of the Iowa Code and governed by an 11 member Board of Commissioners elected for alternating terms of three years.

The following is a summary of significant accounting policies of Grundy County Memorial Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, Grundy County Memorial Hospital has included all the funds of the Hospital and Nursing Home, specifically all assets, liabilities, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Grundy County Memorial Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The balance sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

G. Patient and Resident Receivables

Patient and resident receivables are uncollateralized customer and third-party payor obligations. Unpaid patient and resident receivables are not assessed interest.

Payments of patient and resident receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. County Subsidy Receivable

County subsidy receivable is recognized on the budget approval date, which is the date that the budget is certified by the County Board of Supervisors. The succeeding year county subsidy receivable represents subsidies certified by the Board of Supervisors to be granted in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year county subsidy receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is granted.

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

I. Assets Limited as to Use or Restricted

By Board of Commissioners - Periodically, the Hospital's Board of Commissioners has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Under Loan Agreement/Hospital Revenue Bonds - These funds are used for the payment of principal and interest on the notes/bonds and to provide funds for the construction of additions to and remodeling of the existing Hospital facilities.

J. Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Capital assets donated for Hospital operations are recorded at their estimated fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	10 to 50 years
Buildings and building improvements	10 to 50 years
Equipment, computers, and furniture	3 to 25 years

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire capital assets are reported as capital grants and contributions.

K. Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets.

L. Deferred Debt Financing Costs

Deferred debt issuance costs included in other assets on the accompanying balance sheets are being amortized over the life of the related notes using the effective interest method. Amortization expense applicable to these notes amounted to \$15,042 and \$5,563 for the years ended June 30, 2010 and 2009, respectively. These amounts are included in depreciation and amortization expense in the accompanying statements of revenue, expenses and changes in net assets.

M. Compensated Absences

Hospital associates accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010 and 2009.

N. Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year County subsidy receivable and advance billings of nursing home revenue.

O. Statements of Revenue, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses. County subsidies granted to finance the current year is included in non-operating revenue and peripheral or incidental transactions are reported as non-operating revenue and expenses.

P. Net Patient and Resident Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. Charity Care

To fulfill its mission of community service, the Hospital provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue, depending on the timing of the charity determination.

R. Grants and Contributions

From time to time, the Hospital receives contributions from Grundy County Memorial Hospital Foundation, as well as grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

S. Investment Income

Investment income consists entirely of interest on cash and deposits and is included in nonoperating revenue and expenses.

T. Reclassification

Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 reporting format.

(2) Deposits and Investments

The Hospital's deposits in banks at June 30, 2010 and 2009 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Commissioners; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Credit Risk: The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by Government Accounting Standards Board Statement No. 3 at June 30, 2010 and 2009.

Interest Rate Risk: The Hospital's investment policy allows for the investment of funds with varying maturities as a means of managing its exposure to fair value losses arising from changes in interest rates, so long as the maturities are consistent with the needs and uses of the Hospital's funds.

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2010 and 2009 is included in investment income on the statements of revenue, expenses and changes in net assets.

(3) Net Patient and Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. Long-term care services are reimbursed at a prospectively determined rate per day of care. These rates vary accordingly to a patient classification system. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 43% and 9%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2010, and 39% and 9%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2010 and 2009 net patient service revenue increased approximately \$150,000 and \$300,000, respectively, due to removal of allowances that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews or investigations.

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Gross patient and resident service revenue:		
Hospital -		
Inpatient	\$ 2,095,058	2,227,324
Outpatient	11,197,725	9,444,626
Swingbed	1,587,658	1,169,698
Nursing Home	<u>2,486,789</u>	<u>2,478,243</u>
	17,367,230	15,319,891
Contractual adjustments:		
Medicare	(2,002,656)	(1,575,659)
Medicaid	(232,500)	(187,252)
Other	(1,331,992)	(1,069,470)
Charity care services	<u>(75,666)</u>	<u>(52,817)</u>
Total contractual adjustments	<u>(3,642,814)</u>	<u>(2,885,198)</u>
Net patient and resident service revenue before provision for bad debt	\$ <u>13,724,416</u>	<u>12,434,693</u>

(4) Assets Limited as to Use or Restricted

By Board

Cash deposits and investments designated by the Board for future capital improvements, as of June 30, 2010 and 2009, are summarized as follows:

	<u>2010</u>	<u>2009</u>
Money market accounts	\$ 1,642,305	1,622,999
Certificates of deposit	<u>201,720</u>	<u>201,787</u>
	\$ <u>1,844,025</u>	<u>1,824,786</u>

Under Loan Agreement/Hospital Revenue Bonds

In connection with the loan agreement relating to the issuance the General Obligation Urban Renewal Capital Loan Notes, Series 2009 and the issuance of the Grundy County Memorial Hospital, Hospital Revenue Bonds, Series 2004, the Hospital is required to maintain the following funds:

Sinking Fund – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment. There were no annual principal payments required by the Hospital Revenue Bonds, Series 2004.

Debt Service Reserve Fund – Established for the deposit of the amount of the Series Reserve Fund Requirement on the date of issuance of the Series 2004 Bonds.

Project Fund – Established for the deposit of the loan proceeds used to pay for the Facility Modernization Project.

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

The amounts segregated as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Sinking Fund, cash and money market accounts	\$ 109,150	27,435
Project Fund –		
Cash and money market accounts	135,235	--
Certificates of deposit	1,548,775	--
	<u>1,684,010</u>	<u>--</u>
Debt Service Reserve Fund, certificates of deposit	<u>--</u>	<u>402,854</u>
	1,793,160	430,289
Less amounts required for current obligations	<u>(758,196)</u>	<u>(27,435)</u>
	<u>\$ 1,034,964</u>	<u>402,854</u>

(5) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Patient and resident accounts	\$ 2,057,738	1,882,180
Less allowance for doubtful accounts	(306,941)	(241,084)
Less estimated third-party contractual adjustments	<u>(394,980)</u>	<u>(305,742)</u>
	<u>\$ 1,355,817</u>	<u>1,335,354</u>

The Hospital grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	37%	34%
Medicaid	5	8
Commercial insurance	41	41
Patients and residents	<u>17</u>	<u>17</u>
	<u>100%</u>	<u>100%</u>

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2010 and 2009

(6) Capital Assets

Capital assets and the related accumulated depreciation is summarized as follows:

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 307,587	--	--	307,587
Construction in progress	1,120,361	8,522,329	(8,886,011)	756,679
Total capital assets, not being depreciated	1,427,948	8,522,329	(8,886,011)	1,064,266
Capital assets, being depreciated:				
Land improvements	189,937	44	--	189,981
Buildings	7,965,522	--	8,882,279	16,847,801
Equipment	3,987,218	2,803,915	(181,232)	6,609,901
Vehicles	15,765	--	--	15,765
Total capital assets, being depreciated	12,158,442	2,803,959	8,701,047	23,663,448
Less accumulated depreciation:				
Land improvements	76,665	17,594	--	94,259
Buildings	3,519,342	721,254	(1,321)	4,239,275
Fixed equipment	2,120,873	553,996	(173,830)	2,501,039
Vehicles	13,794	1,971	--	15,765
Total accumulated depreciation	5,730,674	1,294,815	(175,151)	6,850,338
Total capital assets, being depreciated, net	6,427,768	1,509,144	8,876,198	16,813,110
Total capital assets, net	\$ 7,855,716	10,031,473	(9,813)	17,877,376

	June 30, 2008	Additions	Transfers and Disposals	June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 45,455	262,132	--	307,587
Construction in progress	103,516	1,016,845	--	1,120,361
Total capital assets, not being depreciated	148,971	1,278,977	--	1,427,948
Capital assets, being depreciated:				
Land improvements	193,748	--	(3,811)	189,937
Buildings	8,072,855	--	(107,333)	7,965,522
Equipment	3,215,955	947,616	(176,353)	3,987,218
Vehicles	15,765	--	--	15,765
Total capital assets, being depreciated	11,498,323	947,616	(287,497)	12,158,442
Less accumulated depreciation:				
Land improvements	56,889	23,070	(3,294)	76,665
Buildings	3,159,966	432,749	(73,373)	3,519,342
Fixed equipment	1,873,500	354,903	(107,530)	2,120,873
Vehicles	9,853	3,941	--	13,794
Total accumulated depreciation	5,100,208	814,663	(184,197)	5,730,674
Total capital assets, being depreciated, net	6,398,115	132,953	(103,300)	6,427,768
Total capital assets, net	\$ 6,547,086	1,411,930	(103,300)	7,855,716

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

(7) Construction Commitment

In May 2009, the Hospital entered into a construction commitment for the Facility Modernization Project. The project consists of construction of new emergency and acute care departments and a remodel to the surgery department. The estimated cost of the Project is \$13,500,000 and is anticipated to be completed in various phases by January 2011. Costs incurred as of June 30, 2010 amounted to approximately \$12,000,000.

(8) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2010 and 2009 consisted of the following:

	June 30, 2009	Borrowings	Payments / Amortization	June 30, 2010	Due Within One Year
Hospital Revenue Bonds (A)	\$ 4,025,000	--	(4,025,000)	--	--
Discount on Hospital Revenue Bonds (A)	(21,281)	--	21,281	--	--
Subordinate Hospital Revenue Note (B)	176,823	--	(140,596)	36,227	35,273
Notes Payable (C)	232,604	--	(36,250)	196,354	36,250
Urban Renewal Capital Loan Notes (D)	--	16,020,000	--	16,020,000	575,000
Discount on Urban Renewal Capital Loan Notes (D)	--	(127,097)	8,258	(118,839)	--
Net	<u>\$ 4,413,147</u>	<u>15,892,903</u>	<u>(4,172,307)</u>	<u>16,133,742</u>	<u>646,523</u>

	June 30, 2008	Borrowings	Payments / Amortization	June 30, 2009	Due Within One Year
Hospital Revenue Bonds (A)	\$ 4,025,000	--	--	4,025,000	--
Discount on Hospital Revenue Bonds	(32,384)	--	11,103	(21,281)	--
Subordinate Hospital Revenue Note (B)	311,192	--	(134,369)	176,823	140,611
Notes Payable (C)	268,854	--	(36,250)	232,604	36,250
Net	<u>\$ 4,572,663</u>	<u>--</u>	<u>(159,516)</u>	<u>4,413,147</u>	<u>176,860</u>

- (A) On March 1, 2004, \$4,025,000 Hospital Revenue Bonds, Series 2004, were issued pursuant to the authority contained in Chapter 347 of the Code of Iowa and in conformity with a resolution of the Grundy County Memorial Hospital Board of Commissioners. The proceeds of the Bonds, net of discount of \$80,500, will be used to provide funds for the construction of additions to and remodeling of the existing Hospital facilities. The Hospital has pledged future net revenues to repay the bonds. The interest rate on the Bonds is 4.05%. The bonds were paid in full on September 1, 2009.
- (B) On August 26, 2005, the Hospital entered into a loan agreement with Grundy National Bank in the amount of \$650,000 to finance the implementation of new clinical and financial software. The Hospital has pledged future net revenues to repay the loan. The loan is payable in monthly installments of \$12,148, including interest at 4.57% through September 2010.
- (C) On December 27, 2005, the Hospital entered into a rural development loan agreement with Grundy County Rural Electric Cooperative in the amount of \$290,000 to provide additional funds for the construction of additions to and remodeling of the existing Hospital facilities. The Hospital has pledged future net revenues to repay the loan. The loan is payable in monthly installments of \$3,021, without interest, beginning December 2007 through December 2015.

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

- (D) On July 28, 2009, the Hospital entered into a loan agreement with Grundy County, Iowa relating to an issuance of General Obligation Urban Renewal Capital Loan Notes, Series 2009, in the amount of \$16,020,000. The proceeds of the notes, net of discount of \$127,097, were used to refund the existing Series 2004 Hospital Revenue Bonds and provide funds for the construction of additions to and remodeling of the existing Hospital facilities. The Hospital has pledged future net revenues to repay the loan. Interest is paid semi-annually with a varying rate between 4.25% and 4.75%.

Annual debt service requirements related to the long-term debt are as follows:

Year	Principal	Interest	Total
2011	\$ 646,523	708,445	1,354,968
2012	627,204	684,007	1,311,211
2013	646,250	658,655	1,304,905
2014	661,250	632,730	1,293,980
2015	686,250	606,168	1,292,418
2016-2020	3,685,104	2,594,150	6,279,254
2021-2025	4,630,000	1,732,318	6,362,318
2026-2029	4,670,000	563,850	5,233,850
	<u>\$ 16,252,581</u>	<u>8,180,323</u>	<u>24,432,904</u>

Under the terms of the Loan Agreement and Hospital Revenue Bonds, the Hospital is required to maintain certain funds which are included in the assets limited as to use or restricted in the accompanying financial statements.

(9) Pension and Retirement Benefits

The Hospital's associates are leased employees of Allen Health System. As a result, the associates participate in Allen Health System's defined contribution pension plan. Participants may make pre-tax contributions from 1% to 20% of eligible salaries. The Hospital contributes 2% of participants' eligible salaries and matches up to 50% of the first 6% of participants' contributions in 2010 and 2009. Effective February 2010, the Hospital matches up to 50% on the first 4% of participant contributions. Pension plan expense for the years ended June 30, 2010 and 2009 was \$365,331 and \$314,937, respectively.

(10) Operating Subsidy

Effective January 1, 1998, the Hospital entered into an operating agreement with Iowa Health System (Allen Health System). Under this agreement, the Board of Commissioners of Grundy County Memorial Hospital (Hospital Commission) and Allen Health System will jointly exercise certain powers of the Hospital Commission to operate the Hospital and share in the risk and benefits of operation. Included in the statements of revenue, expenses and changes in net assets as a result of this agreement are amounts due to Allen Health System as of June 30, 2010 and 2009 of \$98,285 and \$313,043, respectively.

(11) Commitments under Noncancellable Operating Leases

The Hospital leases certain office space and equipment under noncancellable operating lease agreements. Total lease expense for the years ended June 30, 2010 and 2009 for all operating leases was \$131,709 and \$126,114, respectively.

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2010 that have initial or remaining lease terms in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 246,881
2012	224,481
2013	213,931
2014	177,871
2015	152,489
2016-2020	649,403

(12) Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to associates; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Hospital's leased employees participate in Allen Health System's Self-Funded Health Plan (Plan). The Plan's members include all employees of Allen Health System. The Hospital contributes monthly to the Plan. The Hospital's contributions to the Plan during the years ended June 30, 2010 and 2009 were \$990,351 and \$962,250, respectively. Stop-loss coverage is provided through a commercial insurance company.

The Hospital also participates in Allen Health System's Self-Funded Worker's Compensation Plan. The Worker's Compensation Plan also has stop-loss coverage through a commercial insurance company.

(13) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(14) Foundation

Grundy County Memorial Hospital Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore the Foundation is not reported with the Hospital under GASB Statement 39.

A summary of the Foundation's assets, liabilities and net assets as of June 30, 2010 and 2009 follows:

	<u>(Unaudited)</u>	
	<u>2010</u>	<u>2009</u>
Assets	\$ <u>2,011,525</u>	<u>1,752,174</u>
Net assets	\$ <u>2,011,525</u>	<u>1,752,174</u>

Grundy County Memorial Hospital

Notes to Financial Statements

For the Years Ended June 30, 2010 and 2009

The Hospital received \$49,486 and \$-0- from the Foundation during the years ended June 30, 2010 and 2009, respectively, for the purchase of property and equipment. As of June 30, 2010, the Foundation has approximately \$131,000 of pledges receivable related to the Hospital's Facility Modernization Project.

Grundy County Memorial Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2010 and 2009

	<u>Accrual Basis</u>				Variance
	<u>General</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>	<u>Favorable (Unfavorable)</u>
Estimated amount to be raised by taxation	\$ 250,000	--	250,000	150,000	(100,000)
Estimated other revenues / receipts	13,690,466	15,233,506	28,923,972	37,903,900	(8,979,928)
	<u>13,940,466</u>	<u>15,233,506</u>	<u>29,173,972</u>	<u>38,053,900</u>	<u>(8,879,928)</u>
Expenses / Disbursements	<u>13,484,718</u>	<u>14,058,011</u>	<u>27,542,729</u>	<u>28,800,293</u>	<u>1,257,564</u>
Net	455,748	1,175,495	1,631,243	9,253,607	\$ <u><u>(7,622,364)</u></u>
Balance beginning of year	<u>6,813,294</u>	<u>(2,837,459)</u>	<u>3,975,835</u>	<u>3,975,835</u>	
Balance end of year	\$ <u><u>7,269,042</u></u>	<u><u>(1,661,964)</u></u>	<u><u>5,607,078</u></u>	<u><u>13,229,442</u></u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Commissioners annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Commissioners certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2010, the Hospital's expenditures did not exceed the amount budgeted.

**Schedules of Net Patient and Resident Service Revenue
For the Years Ended June 30, 2010 and 2009**

	2010				2009			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Long term care	\$ 2,486,789	--	--	2,486,789	2,478,243	--	--	2,478,243
Swing bed	--	--	820,435	820,435	--	--	593,779	593,779
Adult and pediatric	454,537	--	--	454,537	623,462	--	--	623,462
Observation	--	69,254	--	69,254	--	65,828	--	65,828
Hospitality	11,156	--	--	11,156	10,158	--	--	10,158
	<u>2,952,482</u>	<u>69,254</u>	<u>820,435</u>	<u>3,842,171</u>	<u>3,111,863</u>	<u>65,828</u>	<u>593,779</u>	<u>3,771,470</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery rooms	964,530	1,435,700	--	2,400,230	894,232	1,298,808	--	2,193,040
Radiology	42,447	2,131,621	7,270	2,181,338	57,642	1,833,889	4,214	1,895,745
Laboratory	110,115	1,812,267	52,196	1,974,578	99,340	1,613,698	29,743	1,742,781
Emergency and outpatient service	3,618	1,929,830	4,209	1,937,657	4,328	1,558,946	--	1,563,274
Pharmacy	197,345	926,916	294,278	1,418,539	249,470	673,437	228,751	1,151,658
Physical therapy	45,988	1,104,677	210,258	1,360,923	56,437	1,031,346	181,392	1,269,175
Anesthesiology	185,834	578,458	--	764,292	126,434	510,910	--	637,344
Mobile services	1,277	388,610	3,803	393,690	9,370	325,819	--	335,189
Occupational therapy	19,879	139,665	106,115	265,659	17,857	27,726	63,172	108,755
Cardiac rehab	--	216,778	--	216,778	170	130,088	--	130,258
Sleep lab	--	166,842	--	166,842	--	126,011	--	126,011
Electrocardiology	3,895	157,973	1,025	162,893	5,766	132,364	2,232	140,362
Respiratory therapy	50,087	4,625	64,312	119,024	71,327	6,239	55,469	133,035
Wound clinic	410	100,223	455	101,088	236	76,976	699	77,911
Speech therapy	624	17,634	19,775	38,033	--	8,016	9,900	17,916
Diabetic education	--	11,793	--	11,793	--	15,335	--	15,335
Ambulance	3,316	676	3,527	7,519	1,090	3,071	347	4,508
Nutrition education	--	3,404	--	3,404	5	6,042	--	6,047
Central services and supply	--	779	--	779	--	77	--	77
	<u>1,629,365</u>	<u>11,128,471</u>	<u>767,223</u>	<u>13,525,059</u>	<u>1,593,704</u>	<u>9,378,798</u>	<u>575,919</u>	<u>11,548,421</u>
GROSS PATIENT AND RESIDENT SERVICE REVENUE	<u>\$ 4,581,847</u>	<u>11,197,725</u>	<u>1,587,658</u>	<u>17,367,230</u>	<u>4,705,567</u>	<u>9,444,626</u>	<u>1,169,698</u>	<u>15,319,891</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(3,567,148)				(2,832,381)
Provision for bad debts				(298,600)				(283,350)
Charity care services and other discounts, based on charges forgone				(75,666)				(52,817)
NET PATIENT AND RESIDENT SERVICE REVENUE				<u>\$ 13,425,816</u>				<u>\$ 12,151,343</u>

Other Operating Revenue
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Clinic rent and other	\$ 59,602	56,755
Cafeteria and vending	44,789	45,210
Grants	29,737	30,581
Miscellaneous	21,411	13,440
Medical records transcriptions	<u>1,648</u>	<u>1,343</u>
	<u>\$ 157,187</u>	<u>147,329</u>

Departmental Expenses
For the Years Ended June 30, 2010 and 2009

	2010				2009			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Long term care	\$ 1,155,601	61,091	52,015	1,268,707	965,328	87,779	53,927	1,107,034
Adult and pediatric	467,998	27,414	47,723	543,135	353,208	33,815	34,742	421,765
Swing bed	281,507	11,095	2,672	295,274	234,579	--	682	235,261
Hospitality	8,912	--	--	8,912	9,697	--	--	9,697
	<u>1,914,018</u>	<u>99,600</u>	<u>102,410</u>	<u>2,116,028</u>	<u>1,562,812</u>	<u>121,594</u>	<u>89,351</u>	<u>1,773,757</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery room	315,020	150,556	715,021	1,180,597	264,378	155,256	620,919	1,040,553
Emergency room	733,988	328,878	40,513	1,103,379	661,893	276,906	42,227	981,026
Laboratory	194,874	107,367	204,285	506,526	195,033	112,967	210,761	518,761
Pharmacy	79,965	38,430	341,729	460,124	40,089	11,087	260,718	311,894
Physical therapy	376,465	7,219	53,905	437,589	320,761	9,914	14,296	344,971
Radiology	235,974	100,571	71,477	408,022	233,667	96,261	40,950	370,878
Anesthesiology	--	205,210	6,212	211,422	--	156,932	6,563	163,495
Medical records	59,366	19,626	16,761	95,753	57,395	12,976	16,281	86,652
Central services and supply	73,953	2,188	(7,078)	69,063	55,569	--	7,632	63,201
Cardiac rehab	53,165	2,950	3,803	59,918	34,289	--	4,212	38,501
Social services	47,888	--	984	48,872	49,281	--	995	50,276
Sleep lab	--	45,895	--	45,895	--	35,750	--	35,750
Specialty clinic	10,424	--	19,212	29,636	10,471	--	19,492	29,963
Diabetic education	17,337	--	3,396	20,733	5,935	--	975	6,910
Respiratory therapy	--	--	17,643	17,643	--	--	17,752	17,752
Speech therapy	5,703	10,761	215	16,679	6,854	--	1,622	8,476
Wound clinic	6,653	--	7,097	13,750	8,007	--	5,813	13,820
Electrocardiology	1,254	8,184	207	9,645	2,195	7,105	255	9,555
Senior Life	6,710	--	735	7,445	5,240	--	865	6,105
Ambulance	95	--	--	95	548	--	--	548
	<u>2,218,834</u>	<u>1,027,835</u>	<u>1,496,117</u>	<u>4,742,786</u>	<u>1,951,605</u>	<u>875,154</u>	<u>1,272,328</u>	<u>4,099,087</u>
GENERAL SERVICES:								
Plant operation and maintenance	201,578	69,869	365,229	636,676	143,114	51,025	368,361	562,500
Dietary	336,824	61	180,720	517,605	317,845	19	195,912	513,776
Housekeeping	149,476	13,952	34,376	197,804	138,614	9,639	26,613	174,866
Laundry and linen	31,728	93,380	13,898	139,006	30,059	98,082	4,306	132,447
	<u>719,606</u>	<u>177,262</u>	<u>594,223</u>	<u>1,491,091</u>	<u>629,632</u>	<u>158,765</u>	<u>595,192</u>	<u>1,383,589</u>
ADMINISTRATIVE SERVICES	<u>1,210,181</u>	<u>264,072</u>	<u>272,309</u>	<u>1,746,562</u>	<u>1,250,202</u>	<u>436,157</u>	<u>276,452</u>	<u>1,962,811</u>
NONDEPARTMENTAL								
Employee benefits	--	--	1,856,629	1,856,629	--	--	1,658,992	1,658,992
Depreciation and amortization	--	--	1,329,217	1,329,217	--	--	831,330	831,330
Insurance	--	--	120,298	120,298	--	--	101,645	101,645
Interest	--	--	82,107	82,107	--	--	174,417	174,417
	<u>--</u>	<u>--</u>	<u>3,388,251</u>	<u>3,388,251</u>	<u>--</u>	<u>--</u>	<u>2,766,384</u>	<u>2,766,384</u>
	<u>\$ 6,062,639</u>	<u>1,568,769</u>	<u>5,853,310</u>	<u>13,484,718</u>	<u>5,394,251</u>	<u>1,591,670</u>	<u>4,999,707</u>	<u>11,985,628</u>

**Patient and Resident Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2010 and 2009**

ANALYSIS OF AGING:

Days Since Discharge	2010		2009	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,278,131	62.11 %	1,167,931	62.05
31 - 60	254,405	12.36	290,590	15.44
61 - 90	100,219	4.87	140,959	7.49
91 - 120	67,256	3.27	88,943	4.73
120 - 180	133,945	6.51	70,658	3.75
> 180	223,782	10.88	123,099	6.54
	<u>2,057,738</u>	<u>100.00 %</u>	<u>1,882,180</u>	<u>100.00</u>
Less:				
Allowance for doubtful accounts	(306,941)		(241,084)	
Allowance for contractual adjustments	<u>(394,980)</u>		<u>(305,742)</u>	
	<u>\$ 1,355,817</u>		<u>\$ 1,335,354</u>	

	2010	2009
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	36.86 days	40.11 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 241,084	255,540
Provision of uncollectible accounts	298,600	283,350
Recoveries of accounts previously written off	53,719	20,487
Accounts written off	<u>(286,462)</u>	<u>(318,293)</u>
Balance, end of year	<u>\$ 306,941</u>	<u>241,084</u>

Inventories / Prepaid Expenses
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
INVENTORY:		
Pharmacy	\$ 107,207	85,474
Central supply	99,075	88,237
Laboratory	25,925	27,100
Dietary	8,758	8,361
Radiology	<u>3,988</u>	<u>3,874</u>
	<u>\$ 244,953</u>	<u>213,046</u>
 PREPAID EXPENSES:		
Insurance	\$ 16,737	18,153
Maintenance contracts	<u>1,490</u>	<u>5,921</u>
	<u>\$ 18,227</u>	<u>24,074</u>

**Insurance Coverage
For the Years Ended June 30, 2010 and 2009**

Company	Property Covered	Limits	Policy Term
MMIC	General Liability (occurrence policy)		12/15/2009 - 10
	Each Occurrence	\$1,000,000	
	Personal & Advertising Injury	\$1,000,000	
	Employee Benefits Liability	\$1,000,000	
	General Aggregate	\$3,000,000	
	Damage to Premises Rented to You	\$1,000,000	
	Fire Dmage	\$1,000,000	
	Products / Completed Operations Aggregate	\$1,000,000	
	Medical Expense	\$10,000	
MMIC	Hospital Professional Liability (claims made)		12/15/2009 - 10
	Per Professional Health Care Incident	\$1,000,000	
	Aggregate	\$3,000,000	
	Retroactive Date: 01/01/2000		
	Medicare / Medicaid Billing E&O & Confidentiality		
	Each Professional Health Care Incident	\$25,000	
	Annual Aggregate	\$25,000	
MMIC	Certificate Holder Professional Liability (Claims Made)		12/15/2009 - 10
	<u>Physician Schedule / Retroactive Date:</u>		
	Eric F. Opheim, DO - 08/06/2004		
	Frank Lamp, MD - 12/15/2007		
	Hagedorn - 07/09/2010		
	SLOT - 12/15/2009**		
	** SLOT - Emergency Medicine - No Major Surgery		
	Per Professional Health Care Incident	\$1,000,000	
	Aggregate	\$3,000,000	
	Retroactive Date: 01/01/2000		
	Medicare / Medicaid Billing E&O & Confidentiality		
	Each Professional Health Care Incident	\$25,000	
	Annual Aggregate	\$25,000	
	Retroactive Date: 10/24/2003		
MMIC	Commercial Umbrella (occurrence policy)		12/15/2009 - 10
	General Aggregate (other than Prod/Compl Ops)	\$1,000,000	
	Products / Completed Operations Aggregate	\$1,000,000	
	Each Occurrence	\$1,000,000	
	Retained Limit - Only if no underlying coverage	\$10,000	
	<u>Underlying Schedule</u>		
	General Liability		
	Automobile Liability		

Insurance Coverage (continued)
For the Years Ended June 30, 2010 and 2009

Company	Property Covered	Limits	Policy Term
MMIC	Medical Professional Excess (Claims Made)		12/15/2009 - 10
	Each Professional Health Care Incident	\$1,000,000	
	Annual Aggregate	\$1,000,000	
	Retroactive Date 01/01/2000		
	<u>Underlying Schedule</u>		
	Hospital Professional Liability Policy		
	Certificate Holder Professional Liability Policy		
	Employee Benefits Liability		
Regent Insurance	Commercial Property		12/15/2009 - 10
	Blanket Building & Personal Property	\$19,431,293	
	Building	\$15,594,929	
	Personal Property	\$3,836,364	
	Deductible	\$2,500	
	Business Income with Extra Expense	\$3,039,306	
	Equipment Breakdown	\$22,470,599	
	Employee Dishonesty - per occurrence	\$100,000	
	Deductible	\$1,000	
Regent Insurance	Commerical Automobile (occurrence policy)		12/15/2009 - 10
	Liability	\$1,000,000	
	Medical Payments	\$5,000	
	Uninsured Motorist	\$1,000,000	
	Underinsured Motorist	\$1,000,000	
	Physical Damage	ACV	
	Comprehensive Deductible	\$1,000	
	Collision Deductible	\$1,000	
	Hired or Borrowed Liability	Included	
	Non-Ownership Liability	Included	
	<u>Vehicle Schedule</u>		
	2000 Ford Van #5201		
	2005 Chrysler Town & Country #9979		
Federal Insurance	Director's & Officer's		12/15/2009 - 10
	Each D&O Claim	\$1,000,000	
	Entity Coverage - each organization claim	\$1,000,000	
	Employment Practices Liability - each claim	\$1,000,000	
	Third Party Liability - each claim	\$1,000,000	
	Maximum Aggregate Limit of Liability for All Claims Each Policy Period	\$1,000,000	
Allen Health System	Worker's Compensation Liability (self-insured)		
	Bodily Injury by Accident - each accident		
	Bodily Injury by Disease - each employee		
	Bodily Injury by Disease - policy limit		
	Stop/loss coverage through commercial insurance carrier		

Insurance Coverage (continued)
For the Years Ended June 30, 2010 and 2009

Company	Property Covered	Limits	Policy Term
General Casualty	Builders Risk		12/15/2009 - 10
	Builders Risk	\$11,000,000	
	Debris Removal	\$250,000	
	Storage & Transit	\$25,000	
	Earthquake	\$10,000,000	
	Flood	\$10,000,000	
	Deductibles \$5,000 Each Occurrence		
	Deductibles \$25,000 Each Earthquake		

Financial Statistical Highlights
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	270	388
All other	193	348
Swing bed - skilled	1,361	1,099
Hospitality	48	49
	<u>1,872</u>	<u>1,884</u>
Nursing Home	<u>17,788</u>	<u>18,896</u>
Discharges:		
Hospital adult and pediatric -		
Medicare	96	117
All other	71	87
	<u>167</u>	<u>204</u>
Average length of stay:		
Hospital adult and pediatric -		
Medicare	2.81 days	3.32 days
All other	2.72 days	4.00 days
Observation equivalent days	76	77
Surgical procedures	567	562
Emergency Room visits	2,403	2,204
Full-time equivalents personnel	128.27	120.54

**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Board of Commissioners of
Grundy County Memorial Hospital
Grundy Center, Iowa:

We have audited the financial statements of Grundy County Memorial Hospital (Hospital), as of June 30, 2010, and have issued our report thereon dated September 17, 2010. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as Item II-A-10, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comment, item II-A-09, has not been resolved.

The Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and responses. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Grundy County Memorial Hospital and other parties to whom Grundy County Memorial Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Grundy County Memorial Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
September 17, 2010.

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Grundy County Memorial Hospital

Schedule of Findings and Responses June 30, 2010

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements. The significant deficiency is not considered a material weakness.
- (c) The audit did not disclose any non-compliance or other matters which is material to the financial statements.

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

II-A-10 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control over financial reporting.

Recommendation – Due to a limited number of administrative personnel, a lack of segregation of duties exists. Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

Response – Management is aware of this deficiency in internal control over financial reporting and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-10 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2010.
- III-B-10 Certified Budget: Hospital disbursements during the year ended June 30, 2010 did not exceed budgeted amounts.
- III-C-10 Questionable Expenditures: We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-10 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-10 Business Transactions: Business transactions between the Hospital officials and/or employees are detailed as follows:

Grundy County Memorial Hospital

Schedule of Findings and Responses June 30, 2010

Name, Title, and Business Connection	Transaction Description	Amount
Board Members	Reimbursement of travel expense for attending Iowa Hospital Association and other meetings.	\$ 414
Board Member	Reimbursement for purchase of books for Hospital.	234
Board Member – Owner, Rouse Motors	Various supplies and minor repairs and maintenance to Hospital vehicles.	884
Board Member – Owner, AmericInn	Hotel stays.	214
Board Member – President/CEO, Nucara Home Medical	Miscellaneous medical supplies.	4,875

This does not appear to be a voidable conflict of interest pursuant to Chapter 347.9A(2)(a) of the Code of Iowa.

- III-F-10 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-10 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted. The Hospital does not have a formal written investment policy as required by 12B.10B of the Code of Iowa.
- III-H-10 Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. The Hospital has no employees as all employees are leased from Iowa Health System (Allen Health System), who jointly exercises certain powers of the Hospital commission to operate the Hospital. Therefore, the salaries of Iowa Health System employees were not published.

Grundy County Memorial Hospital

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2010

Finding		Status	Corrective Action Plan or Other Explanation
II-A-09	Segregation of duties over internal control over financial reporting.		Unresolved, similar finding reported at II-A-10

Grundy County Memorial Hospital

Audit Staff
For the Year Ended June 30, 2010

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, CPA, Manager

Emily H. Nave, CPA, In-Charge

Andrew J. DeLashmutt, Staff Auditor